



**Asia-Pacific
Economic Cooperation**

2008/MRT/003
Agenda Item: X

PECC Statement

Purpose: Information
Submitted by: PECC



**Ministers Responsible for Trade Meeting
Arequipa, Peru
31 May-1 June 2008**

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APEC Ministers Responsible for Trade
1 June 2008

We thank Ministers and our hosts Peru for this opportunity to update APEC Ministers responsible for Trade on our work to promote Asia Pacific cooperation from the second track. We welcome Peru's theme of "A new commitment to the development of the Asia-Pacific" and the priorities included under the theme.

As we have noted in previous updates to APEC, we have undertaken a major overhaul of our activities to focus on a few selected task force activities and on building broader domestic constituencies supportive of Asia Pacific cooperation. We believe this approach is close to the underlying idea of this year's theme to build greater support for Asia Pacific cooperation. We hope that as we implement our reforms you will find PECC's activities of greater relevance to your work.

As some of you will recall, two years ago a cooperative PECC-ABAC task force examined the concept of a Free Trade Area of Asia-Pacific. We currently have task forces completing work in the areas on the architecture of cooperation, international labor mobility, and educational services, as described in this report.

The State of the Region

PECC's signature continuing activity, begun 3 years ago, is an annual "State of the Region" report, consisting of a macro-economic forecast, a survey of opinion on regional issues, and an analysis of major challenges. Our forecast group held their annual meeting in March, during a time of great economic uncertainty in the United States, affecting the region and the world.

Our forecast group expects economic growth in the region as a whole to slow to 3.7% this year from 4.9% in 2006. This represents a downward revision from our November forecast of 4.9%. The downward revisions to our outlook mainly come from a decrease in the contribution of the external sector to growth for most economies in the region.

The developing economies of the region are showing the strongest resilience to the current economic turbulence, even though inflation – driven by rising food and energy prices -- is an increasing concern in many economies. There is a significant downside risk to the forecast if the credit crunch in the United States deepens and contagion effects spread to asset markets in Asia.

The Critical Role of Trade

The across-the-board slowdown, although affecting some economies more than others, highlights the continued inter-dependence of the Asia Pacific and the importance of regional cooperation. Since trade and the freer flow of capital have been driving forces for high rates of growth in the Asia Pacific region, in a time of slowdown, it is critical that these drivers not be lost. Moreover, trade traditionally helps dampen inflationary pressures. In this context, it is of great concern that there is an increasingly more difficult environment for further trade liberalization, as demonstrated by the continued stalemate in Doha Development Round discussions, the expiration of Trade Promotion Authority in the United States and uncertain outlook for the FTAs negotiated by the United States, and the rise of export controls being placed on some agricultural items as a response to food security concerns.

In our State of the Region survey conducted last year 72% of respondents rated protectionism as a moderate to very serious risk to growth. Moreover, when we asked opinion-leaders just prior to the Sydney Leaders meeting what the top five priorities for the leaders' discussions should be, the top two were both related to trade – the WTO DDA negotiations and the Free Trade Area of the Asia Pacific (FTAAP). Public opinion around the region continues to see trade as the highest priority for APEC cooperation.

We welcome APEC's ongoing work on model measures for FTAs. In our survey last year 42% of respondents ranked the complexity of rules of origins and tariff structures as significant to very significant impediment to integration in the region. An additional 37% ranked them as being

moderately significant. This makes a total of 79% of respondents who felt the plethora of trade arrangements is inhibiting one of APEC's most embracing goals – regional integration. Among our respondents from the business world, this figure rises to 85%.

We also welcome the progress under the banner of the regional economic integration, and especially look forward to the completion of the study on identifying convergences and divergences in existing agreements. However, now that 10 model measures have been developed, we believe the time is ripe for APEC to begin to examine the existing and proposed bilateral and regional agreements in light of their conformity to the model measures. The lack of comprehensiveness and long phase-in periods in some of these agreements reduce the confidence other members can have in the continued sincerity of the membership to APEC's objectives. Each FTA should have a mechanism to achieve the standards set out in the model measures.

APEC's membership shares in common a belief that an open multilateral trading system to deliver an environment in which our people can thrive. This confidence can easily be shattered as we have seen in previous eras. APEC and its members need to play a larger role on the world stage to ensure that the continued health and relevance of the institutions that foster an environment conducive to economic growth and prosperity.

In this light we welcome APEC's work to support the conclusion of the WTO round and hope that the common ground found in Peru will translate its way to leadership in Geneva.

Investment Pressures

The past year has also witnessed increased restrictions on investments. As a region of massive capital accumulation and international capital flows, APEC needs to have a voice on this issue. Moreover, the activities of investment funds, whether they are sovereign wealth, hedge funds or otherwise, have a real impact on our economies.

While some of these restrictive policy responses may be temporary measures in response to domestic political pressures, they send the wrong signal to the rest of the world. We reiterate our call on APEC to better integrate the work of the Finance Ministers' process into the mainstream process being together the finance and trade tracks.

Ensuring Food Security

During the first quarter of this year, food prices have risen above trend and the price of some key commodities has doubled. While the price pressures may dissipate and indeed have leveled off or fallen in recent weeks, some of the underlying changes in the regional and global economy that drove the price hike remain.

Over the last 8 years we have published an annual report on the developments in food supply, each of which is focused on a specific theme that we believe to be critical to understanding the food and agri-business industry. As APEC considers the role regional cooperation can play in ensuring food security we draw your attention to this body of work.

In addition to our work on the food system given the importance of this issue and recent policy responses to the crisis, we believe there is a need for more analytical work on this issue. For this reason, PECC is organizing a special session on this issue on 25 July in Bangkok alongside our Standing Committee to shed more light what regional institutions like APEC can do. We welcome participation from your representatives at this meeting and thank our hosts in Thailand for making the arrangements.

Asia Pacific Education Market

Fundamental changes taking place in the way education is delivered and organized in the Asia Pacific. The increased internationalization of education presents many challenges to the governments charged with its regulation. As APEC strives to implement its regional economic integration agenda, regional cooperation in the management and provision of education will be critical to ensuring that the people of our region are sufficiently well equipped to compete in today's fast changing global economy.

A summary report will be shared with APEC Education Ministers when they meet on 11-12 June, however, we would draw Trade Ministers' attention to two specific aspects of the work: the implications for quality assurance and the future of accreditation; and international student movements and the effects of barriers to trade. On these aspects of the work APEC and especially the Committee on Trade and Investment and its Group on Services in cooperation with education ministries can play a vital role in establishing the regulatory environment to enhance the capacity of the region's education system to spur development and reduce inequalities both within and between our economies.

Demographic Change and Labor Mobility

We also have a joint project with ABAC on "Demographic Change and International Labor Mobility in the Asia Pacific". The task force members met in Seoul on 25-26 March and are working on finalizing the report and recommendations. We are working to submit the report to APEC in the next few months with the hope that APEC will undertake a work program to consider our policy recommendations in 2009.

We note from the initial findings that there are considerable demographic differentials between the economies in the region as well as the better known economic differentials, the on-going decline of the labor force in higher income countries, in particular, serving to increase pressures for labor mobility in the APEC region. . The work done so far suggests that failure to recognize that migration is a long term structural feature of the economies of the region leads to unrealistic policies and programs on migrant workers, in particular, trying to restrict rather than manage migration in the case of many economies, and that there is a need for APEC governments to consider ways of improving governance of migration systems, individually as well as collectively. Although sub-regions within the Asia Pacific have made some progress in addressing this issue such as ASEAN and NAFTA, some of the larger pressures are coming from demographic change outside these sub-regions but within the broader Pacific, and businesses operating in the region are finding it increasingly difficult to implement expansion plans and deploy talent when and where it is needed.

While recognizing government prerogatives and the political and social sensitivities to migration issues for both sending and receiving economies, we believe the time is ripe for a fuller discourse on labor mobility in our region. Greater labor mobility, if managed well, has the ability to accelerate development in sending economies and reduce labor market pressures in receiving economies.

In conclusion, we believe APEC has vital role in affirming this region's support for the multilateral trading system. As we have seen over the past 12 months, some of the policy measures being adopted by a number of the region's governments send the wrong signal to the rest of the community and the world. Although often a criticism of APEC, its non-binding nature is often its greatest strength allowing members to exchange views without the burden of it being a formal negotiation. Through APEC we hope that this region can renew confidence in the system and move together in the spirit of an Asia Pacific community.

Thank you for the continued opportunity to keep APEC updated on our work and we look forward to receiving your comment and views on how the second-track can better support your efforts.